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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 001815

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DEPARTMENT TO DAS BRYZA

E.O. 12958: DECL: 12/12/2016  
TAGS: [ENRG](#) [PREL](#) [PGOV](#) [TU](#) [GA](#) [AJ](#)  
SUBJECT: AZERBAIJAN ENERGY MINISTER: TRILAT GAS DEAL  
REACHED, DETAILS TBD DECEMBER 14-17

REF: (A) BAKU 1794 (B) BAKU 1789 (C) BAKU 1771 (D)

BAKU 1807

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (C) SUMMARY At a December 12 meeting Energy Minister Natiq Aliyev briefed US and Georgian diplomats and energy company representatives on the results of the December 8 Energy Ministers' Trilateral in Tbilisi. Aliyev said the Energy Ministers came to a general agreement that Turkey's 2007 Shah Deniz gas be re-distributed, with greater amounts going to Azerbaijan and Georgia and with Turkey receiving no gas before July 2007. The Ministers also agreed to an experts meeting in Baku December 14-17 to work out the details. Aliyev asked the Shah Deniz partners' help in drawing up a draft Intergovernmental Redirection Agreement for the December 14 meetings, at which a corresponding new agreement between Botas and the Azerbaijan Gas Supply Company (AGSC - the Shah Deniz partners' marketing entity) would be drawn up. On compensation for Turkey, Natiq said that he "didn't want to talk mechanisms" and would leave that "for the companies' lawyers," at the Baku meetings. He assured the companies that they would be kept financially whole.

¶2. (C) SUMMARY (CONTINUED): Based on this meeting, it seems that the two key documents expected to come out of the December 14 Baku meetings would be a final Intergovernmental Redirection Agreement and a corresponding new agreement between Botas and AGSC. Although it is incorrect to say that an agreement has been reached, certainly the general outlines of one have been. There are serious issues still on the table, and Azerbaijan and the Shah Deniz partners expect that Turkey will seek some form of compensation for their willingness to forego some 2007 Shah Deniz gas. Having said that, Energy Minister Aliyev and the Shah Deniz partners believe that all involved can work out an acceptable agreement. Concerning possible high-level USG involvement in December 14 mtg, Natiq told EnergyOff after the December 12 meeting that although USG representatives from Washington were welcome to come, since the upcoming December 14th meeting was at the experts level, he felt their presence wouldn't be necessary. END SUMMARY.

¶3. (C) On December 12 Azerbaijan Energy Minister Natiq Aliyev summoned representatives of Socar, BP and Statoil, and Georgian and US diplomats to brief them on the December 8 gas Energy Ministers' Trilateral Meeting in Tblisi. Main participants included: (from BP) BP Azerbaijan President Bill Schrader, Vice-President for Commerce Dr. Phil Home, External Affairs and Policy Forum Manager Seymour Khalilov; (for Statoil) Statoil Azerbaijan President George Gundersen and

Vice-President for Gas Jan Heiberg; (for Socar)  
Vice-President Elshad Nassirov and Foreign Investments  
Division General Manager Vagif Aliyev; Georgian Ambassador to  
Azerbaijan Zurab Gumberidze and EnergyOff.

14. (C) Speaking throughout in Russian (with BP personnel translating), Aliyev started by saying that delays in Shah Deniz production and in the construction of the South Caucasus Pipeline (SCP) had worsened Azerbaijan's 2007 gas balance, with the GOAJ estimating that even with domestic reserves, there would be a supply deficit of 1.3 billion cubic meters (bcm). Although negotiations with Gazprom were ongoing, the price offered (USD 230 per thousand cubic meter - mcm) was high enough to make the increased burning of mazout in Azerbaijani power plants economically preferable. This mazout burning would lead to losses, but not major ones, Aliyev said.

#### GA-AZ Solidarity

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15. (C) Aliyev said Georgia was also in a similar situation in its negotiations with Russia for 2007 gas, and that Georgia and Azerbaijan had agreed to coordinate their actions in relation to Gazprom. Aliyev said he thought that neither Azerbaijan nor Georgia would get any Russian gas this winter, and that Russia was trying to delay or stop Azerbaijan gas from reaching international markets. Georgian Ambassador Gumberidze said he too assumed that come January first 2007, Georgia would be receiving no Russian gas.

16. (C) Aliyev said that he had met with the Gazprom's Deputy Director during Russian Prime Minister Fradkov's recent visit to Baku. He said Gazprom offered Azerbaijan a 'swap deal' whereby Azerbaijani gas would go to South Russia in exchange

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for Russia selling gas to Europe. Gazprom also offered to increase Azerbaijan's gas storage capacity for its domestic market in exchange for Azerbaijani gas for South Russia. Aliyev said that he declined both offers.

#### Tbilisi Readout

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17. (C) Briefing on the December 8 Tbilisi meeting, Aliyev said that he had consulted with Socar prior to Tbilisi and had gone there "with a draft agreement in my pocket," but that he had not shown it to the other Energy Ministers "because I saw no need to." He had conveyed the following points, approved by Prime Minister Rasulzade and President Aliyev, to Turkish Energy Minister Gular in Tbilisi:

- President Aliyev is committed to help Georgia through the winter. Georgia needs a minimum of 1.1 bcm of which Azerbaijan will seek to provide 0.8 bcm.
- if Azerbaijan had to buy Gazprom gas at USD 230/mcm and sell Shah Deniz gas to Turkey at USD 120/mcm, there would be 'social disorder in Azerbaijani streets;'
- Some Shah Deniz gas has to reach Turkey in 2007 to prevent the appearance of failure in the project of exporting Azerbaijan gas to and through Turkey;
- In light of Turkey's deal to sell 0.7 bcm to Greece, it would be "good for all" if some Shah Deniz gas reached the Greek market in 07.

18. (C) In reaction to these points, Aliyev said Energy Minister Gular initially tried to 'maintain the status quo' in Tbilisi, insisting that Turkey had already allocated the Shah Deniz gas it expected to receive, and that getting less would be a breach of contract. Turkey also tried to broach the matter of direct compensation, but Aliyev explained to

him that this issue was "not linked" to the general political one, and that what was most important was that a mutual political decision be reached. Despite Gular's contention that only parties to the contract could discuss the matter and that there needed to be talks about an overarching legal framework, eventually the three Energy Ministers agreed on the following general points:

- Turkey would be willing to redistribute its Shah Deniz gas as follows: 1.3 bcm to Azerbaijan, 0.8 bcm to Georgia and 0.7, keeping 0.7 for itself;
- Turkey would accept its first Shah Deniz gas no earlier than July 07 (this date driven by contract with Greece)
- There would be an amendment to the existing contract, with experts meeting in Baku on the 14-17 to work out the details.

¶9. (C) Aliyev said that although Gular agreed to the above points, he said he would need to consult with his Prime Minister. Energy Minister Aliyev said he thought that the SCP pipeline in Turkey would not be ready until July 2007, based on Turkey's willingness to forestall receiving Shah Deniz gas until that date. He said that in Tbilisi Turkey had offered to re-distribute all Shah Deniz gas available before July 2007 in exchange for all Shah Deniz gas available post-July to December 2007, an offer which he rejected immediately. Aliyev said he briefed the Georgian President after the Tbilisi summit, who approved of the agreement, as did President Aliyev when he was briefed.

Baku Dec 14  
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¶10. (C) Energy Minister Aliyev said that these next, expert-level meetings in Baku December 14-17 would include representatives of Botas, Socar, BP and Statoil (Statoil being marketer for the Shah Deniz marketing arm, the Azerbaijan Gas Supply Company )AGSC). At this time the details of the Tbilisi political agreement would be worked out (Note: there is a BTC meeting in London December 13-16, as a result of which all top level Socar officials will be out of Azerbaijan during this time. Therefore, according to Elshad Nassirov, Socar Gas Operations Department head Kamal Abbasov will probably be the main Socar representative at these meetings in Baku). Georgian Ambassador Gumberidze said that he had heard unofficially that Botas would be sending

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four representatives.

Companies' Reaction  
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¶11. (C) After having heard Aliyev, BP Schrader said BP was pleased to see that the three governments had come to an general agreement, and he urged that a new Intergovernmental Redirection Agreement (IRA) be drawn up expeditiously, with the parties (Botas and AGSC) notified once it is signed. In response, Aliyev said that he wanted the companies to draft an IRA in time for the December 14 talks. When Statoil pointed out that it would need more information in order to prepare an IRA, and more generally to prepare itself for the December 14 meetings, Aliyev fired back that it was he who needed more information, such as when and how much Shah Deniz gas would be ready, as the date always seemed to be slipping.

He said that if Azerbaijan could get 3.0 bcm from Shah Deniz, 1.3 would stay in Azerbaijan with the rest going to Georgia and Turkey. He added that the only documents from the Tbilisi energy summit were the meeting minutes, which were unsigned. Statoil said that AGSC would need both an IRA and a letter from Botas, requesting revision of the existing commercial agreement. Aliyev said that the companies themselves should draft an IRA, and that AGSC would get such a letter from Botas.

¶12. (C) Statoil said that as the result of any new arrangement the partners would have to be kept "financially and reputationally whole." Aliyev told Statoil not to worry ) he assured the companies that they would be kept financially whole, adding that the IRA would protect the partners, who would not be losing any money because the Shah Deniz gas was still going to be sold (Comment: Aliyev was being disingenuous, since if Turkey does indeed insist on later buying the amount of its 2007 Shah Deniz gas it has agreed to 're-distribute' to Azerbaijan and Georgia at the same 2007 price, then indeed someone is going to have to either make up the lost income to the partners, or the partners themselves will have to agree to take the loss). Aliyev added that the Shah Deniz partners' reputation had already been ruined due to production delays. Saying "don't forget where you work," he said that the companies will do what Azerbaijan says.

¶13. (C) In response to concerns from Statoil about working within a legal framework, Aliyev said that everything would be done legally. He added that there would be no payments for contract violations sought, and that the main point was that the companies "should get ready to negotiate with Botas" starting December 14. He didn't want to talk about mechanisms at this meeting ) "this is what your lawyers will have to look at." All details would be worked out among Socar, Botas BP, Statoil and others in the Baku meetings. What was important was that a general political agreement had been reached among the countries, the details of which had to be hammered out in Baku. He said he would call the Turkish Energy Minister after this meeting to request Botas to send its representatives up to Baku. He repeated that it was crucial that the IRA draft be ready for the Baku meetings.

Socar: Georgia Be Quiet

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¶14. (C) Socar's Elshad Nassirov said that Azerbaijan was not "looking to take over" the partners' gas, prompting Aliyev to add that Azerbaijan "wasn't Venezuela." Nassirov added that since "we haven't given up" in negotiations with Gazprom, he asked the Georgian Ambassador that Georgia "not make any forward-looking statements." (note: Nassirov has previously expressed to EnergyOff his exasperation at Georgia for its public pronouncements about its gas negotiations with Russia, which he felt made negotiations more difficult for Azerbaijan). Elshad also added that the National Iranian Oil Company was coming to Baku on December 19.

¶15. (C) Statoil asked Aliyev if it were certain that Azerbaijan would be receiving no gas from Russia in 2007. Aliyev said that Socar President Abdullayev had been invited to Moscow for more negotiations, but that he felt that the basic Gazprom proposal would not change, and that consequently Azerbaijan would be burning more mazout.

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¶16. (C). Concerning possible high-level USG involvement in December 14 mtg, Natiq told EnergyOff after the meeting that although USG representatives from Washington were welcome to come, since the upcoming December 14th meeting was at the experts level, he felt their presence wouldn't be necessary.

¶17. (C) In a separate meeting between Charge and BP after this meeting (upcoming septel), BP Azerbaijan President Bill Schrader said that his sense of the just concluded meeting was that it seemed as if Turkey instead of getting caught in a take or pay, situation (since it wasn't ready to receive gas) was surrendering two-thirds of its 2007 Shah Deniz gas. He said that he felt that the Shah Deniz partners could accept any probable worst case scenario, re

compensating Turkey for re-distributing its 2007 gas and that overall he had a much better feeling about events than he did a week ago, when it felt like "BP was being set up for a trip out to the woodshed" (Reftel D).

¶18. (C) COMMENT: Based on this meeting, it seems that the two key documents expected to come out of the December 14 Baku meetings would be a final Intergovernmental Redirection Agreement and a corresponding new agreement between Botas and AGSC. Although it is incorrect to say that an agreement has been reached, certainly the general outlines of one have been. There are serious issues still on the table, and Azerbaijan and the Shah Deniz partners expect that Turkey will seek some form of compensation for their willingness to forego some 2007 Shah Deniz gas. Having said that, it is clear that Energy Minister Aliyev and the Shah Deniz partners believe that a framework now exists within which all involved can work out an acceptable agreement. END COMMENT.  
HYLAND